

Healthy Wisconsin

Structure: Key Policy Questions

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Why Structure is Important?

- Poorly structured programs have low take-up rates and often prove unsustainable.
- The goal of government reinsurance is to cause insurers to lower premiums and reduce their use of selection mechanisms.
- To accomplish this goal, insurers must believe that the program significantly reduces their risk of adverse selection.



Key Policy Areas

1. Product Design
 - ✓ Primary Insurance Product/Standards
 - ✓ Reinsurance
2. Insurance Issues
 - ✓ Community Rating
 - ✓ Guaranteed Issue/Renewal
3. Subsidy Design
 - ✓ Should there be a subsidy?
 - ✓ Reinsurance Fund Subsidy
 - ✓ Premium Subsidy
4. Administration – Who is going to run the new program?

Product Design

- ❑ **Will a primary insurance product be offered or standards set? If so, how and what type?**
 - Will the program mirror Healthy New York and marry a primary product (offered through HMO's) to a statewide reinsurance program?
 - Will the program require participants to have primary insurance of some kind in order to access reinsurance?
 - ✓ If so, what product standards will be set?
 - If no primary insurance is required or standards set, some program participants will be more likely to utilize the reinsurance program which will create inequities and incentives for fraud.
 - ✓ “Cadillac” plans could invite moral hazard – unnecessary levels of utilization.
 - ✓ Very limited plans could restrict access to preventative care services that could in turn lead to higher medical costs in the long-run.

Product Design (cont.)

- ❑ **What kind of reinsurance product will be offered?**
 - ✓ Aggregate Stop-loss (Arizona)
 - ✓ What loss ratio will be established?
 - ✓ Excess-of-loss (Healthy NY)
 - ✓ What attachment point will be established?
 - ✓ Will coinsurance be required? If so, how will it be structured?
 - ✓ Reimbursement for certain “high cost procedures” (Al Jacobs)
 - ✓ What medical procedures will be covered?
 - ✓ How will difference in quality and cost within and across regions be addressed? (Not all heart surgeries cost the same amount.)



Product Design (cont.)

- **How will people access the product?**
 - Through participating HMO's
 - Through all insurers
 - Direct program sign-up (optional participation)
 - Mandate (required participation)
 - If optional, will businesses, individuals or both be able to sign-up for the program?
 - More discussion of this issue at a future meeting of the council.



Insurance Issues

- **Should the state institute “community rating” as part of its reinsurance program?**
 - ✓ Reinsurance works because insurers reduce their use of selection mechanisms (example: underwriting).
 - ✓ Community rating can be introduced along with reinsurance to ensure that selection mechanisms are minimized.
 - ✓ With community rating, everyone pays the same premium. An insurer using community rating to set insurance premiums ignores any differences in expected costs among insured groups or people.



Insurance Issues (cont.)

- ✓ New York has community rating which may well have helped the program be successful.
- ✓ A new program could require that those offering a Healthy Wisconsin product utilize community rating.
- ✓ Community rating can lead to higher premiums for younger and healthier individuals.



Insurance Issues (cont.)

- ❑ **Should the state institute “guaranteed issue/renewal” requirements as part of its reinsurance program?**
 - ✓ In order to further restrict the ability of insurers to deny coverage to potentially high costs, guaranteed issue/renewal requirements could be instituted.
 - Guaranteed issue requires insurers to accept all applicants.
 - Guaranteed renewal requires insurers to renew all applicants.
 - ✓ Guaranteed issue would better help ensure that the benefits of reinsurance are realized by program participants.



Insurance Issues (cont.)

- ✓ A new program could achieve the same effect by requiring that those offering a Healthy Wisconsin product utilize guaranteed issue.
- ✓ Guaranteed issue can lead to higher premiums for younger and healthier individuals.

Insurance Issues (cont.)

- **How does the state ensure that the benefits of reinsurance are experienced by program participants?**
 - Private Competition: The state could rely on multiple HMOs/Insurers to compete for customers which will drive savings to participants through lower premiums.
 - Rate Setting: The state could impose rate restrictions on HMOs/Insurers to prevent against price gauging.

Subsidy Design

□ Is a subsidy necessary?

- Some researchers believe that yes, a subsidy is necessary if the goal is to really reduce premiums.
- Arizona and other states operate programs without a subsidy.
- If no subsidy is utilized, a program would still “smooth out” risk which would bring greater stability and predictability to the insurance market (especially helpful for small businesses).
- Key question is what is the source of the subsidy. This question will be discussed at a future meeting of the council.
- MA waiver may be an option for funding a subsidy.



Subsidy Design (cont.)

- **How should a subsidy be structured?**
 - Capitalization of Reinsurance Fund
 - State either provides a one-time or recurring subsidy to the reinsurance program.
 - Subsidy helps offset a portion of the cost for high cost claims.
 - Subsidy could also be targeted at a subset of the population served by the program.
 - Healthy New York provides a recurring subsidy by funding 80% of all costs in the reinsurance corridor (20% funded through coinsurance).



Subsidy Design (cont.)

■ Premium Subsidy

- State could provide a subsidy through reductions in reinsurance premium costs.
- Subsidy could either be direct (payment directly to participants or the fund) or indirect (tax deduction/credit).
- Premium subsidies are easy to target but are a “blunt” tool in terms of funding the reinsurance program.

Administration

□ **Who should run the program?**

- State government - traditional government program
- Quasi-public “Authority” – HIRSP model
- Private/non-profit firm – contracted out

□ **Who should hold the risk?**

- Private insurance company - the state could seek proposals from private insurance companies to serve as an underwriter of a reinsurance policy.
- State government – the state could retain the risk and serve as the financial underwriter.